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HEDGE FUND ADVISORY
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HENNESSEE
HEDGE FUND REVIEW®

JANUARY 2011
VOLUME 12 ISSUE 12

	DEC	YTD
Hennessee Hedge Fund Index	+3.04%	+10.05%
S&P 500	+6.53%	+12.79%
Long/Short Equity	+3.08%	+9.11%
Arbitrage/Event Driven	+2.66%	+12.35%
Global/Macro	+2.70%	+9.32%

Percentage Of Hedge Funds Managers Outperforming The:

	DEC	YTD
S&P 500	29%	10%

Top (3) Performing:

Dec		YTD	
Financial Equities	+5.94%	Event Driven	+16.20%
Healthcare and Biotech	+4.57%	Distressed	+14.76%
Event Driven	+4.39%	Emerging Markets	+13.65%

Bottom (3) Performing:

Dec		YTD	
Short Biased	-4.60%	Short Biased	-13.18%
Telecom and Media	+0.53%	Europe	+4.24%
Market Neutral	+1.00%	Market Neutral	+5.06%

MARKET SUMMARY - DECEMBER 2010

Hedge funds experienced their best monthly gain of the year, advancing +3.0% in December and finished 2010 with a double digit return of +10.0%. **While hedge funds underperformed most broad equity market averages in 2010, it is important to note that this is consistent with prior periods during which equity markets were driven largely by momentum as opposed to fundamentals, as was the case in 2010.** Rather the real value-add of hedge funds is better measured over longer timeframes where they have exhibited the ability to provide investors both strong risk-adjusted returns and significant downside protection, particularly during periods of market distress. In fact, from the start of the financial crisis in September of 2008 through the end of 2010, the Hennessee Hedge Fund Index generated an impressive +16% gain, while the S&P 500 Index declined -2%. It's also worth noting, hedge funds generated these favorable results with a fraction of the volatility.

Despite mixed economic reports and growing sovereign debt concerns throughout the year, the financial markets closed 2010 with respectable gains across most risk assets. **The S&P 500 Index finished the year in double digit territory with a +12.8% gain while the Dow Jones Industrial Average finished up +11.0%.**

International stocks also experienced gains in 2010 with the emerging markets outperforming their developed market counterparts. **The MSCI EAFE Index rose +4.9% for the year, while the MSCI Emerging Markets Index jumped an impressive +16.4%.**

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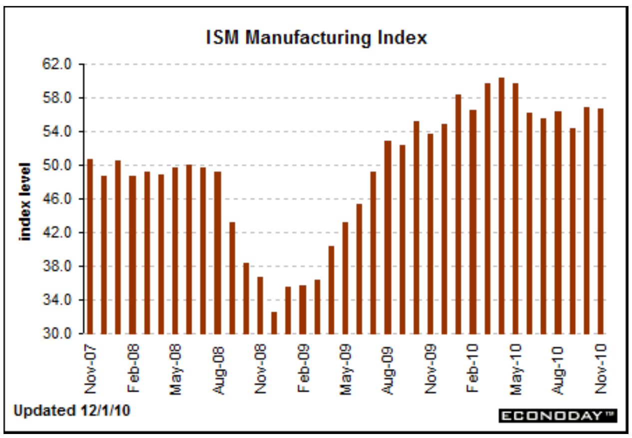
The fixed income markets also registered gains for the year with the high yield market leading the way. **The Barclay Aggregate Bond Index gained +6.6% in 2010, while the Bank of America/Merrill Lynch High Yield Master II Index rose an impressive +15.2%.** Treasuries also posted gains in 2010 after being one of the few asset classes to experience declines in 2009. The 10 Year Treasury rose +7.9% while the 30 Year Treasury gained +8.7%.

Along with other risk assets, commodity prices also increased in 2010 as improved attitudes toward the economic recovery grew over the course of the year. **The S&P GSCI rose +9.0% in 2010, with precious metals (+34.5%) and agriculture (+34.2%) experiencing the strongest gains.** While gold rose a solid +28.7% for the year, silver performed particularly strong, with an impressive +81.8% return.

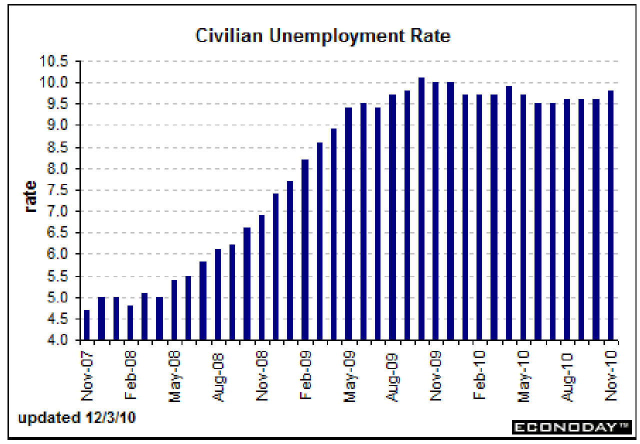
U.S ECONOMIC REVIEW

The U.S. economy continues to show improvement despite elevated levels of unemployment and ongoing weakness in the housing market. Economists note exports and business fixed investment remain two bright spots that not only have supported recent economic growth but also should help drive real GDP growth in the coming quarters. Economists also anticipate consumer spending to contribute at an increasing rate going forward, particularly as private-sector job growth continues to improve. The -2% reduction in Social Security taxes is also a positive and is likely to provide temporary support, but there is concern that rising food and energy prices, as well higher mortgage rates, could offset such tax benefits. Another particular headwind that economists are watching closely are the inevitable spending cuts and tax hikes that state and local governments are poised to make in 2011 to shore up their financial conditions. **Most economic forecasts predict the economy will expand at a +3.0% pace over the next two years; an improvement from prior forecasts, but still likely not at a rate that could significantly improve labor market conditions.**

The Institute for Supply Management's Manufacturing Index (ISM Index), a diffusion index measuring national manufacturing conditions by surveying 300 firms on employment, production, new orders, supplier deliveries and inventories came in at 57.0 during the month of December, with continued growth signals coming from production, orders and employment. Specifically, ISM's new orders index came in at 60.9 while employment, came in at 55.7. **Employment has now been above breakeven for the last thirteen months which economists believe is a good sign that job growth could pick up in 2011.** The ISM non-manufacturing survey also rose sharply in December to 57.1, the highest reading since May 2006. The overall boost in the services sector was largely driven by improvement in business activity and new orders. **The strong results from both ISM surveys in December suggest that economic growth in the U.S. appears sustainable and that a double-dip scenario is largely out of the picture as we enter 2011.**



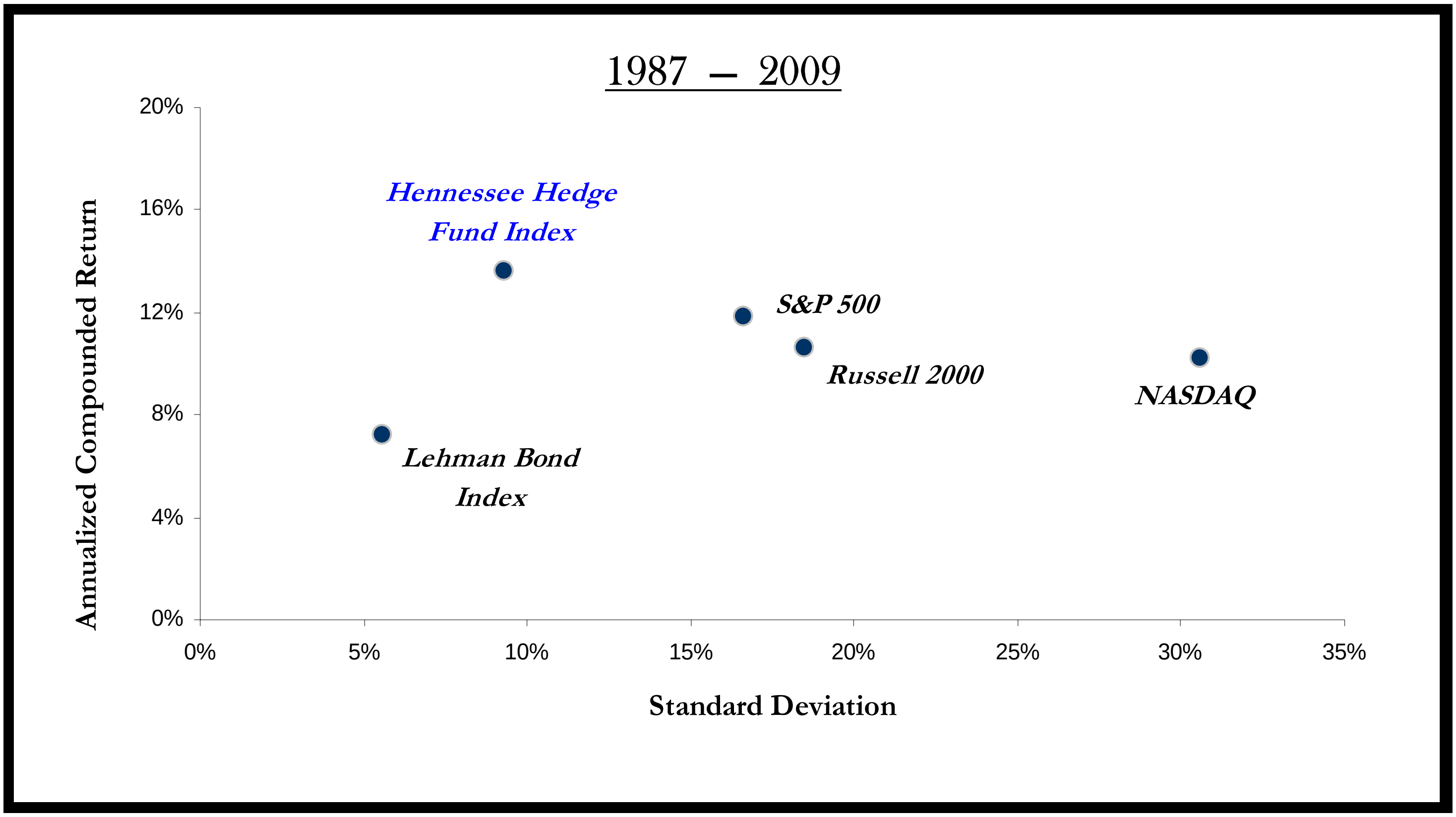
The employment picture remains mixed. While there was private sector job growth in December and aggregate hours rose, the overall gain in jobs was below expectations and the surprise drop in unemployment was due in large part to a decline in the participation rate. Jobs rose 103,000 in December, 60,000 fewer jobs than consensus, however up from the upwardly revised gains of 71,000 in November. Strength was in private service-providing jobs which rose 115,000 and manufacturing which grew by 10,000. Construction fell by 16,000, while Government jobs declined by 10,000. The unemployment rate unexpectedly fell to +9.4% in December; down from +9.8% in November. **That said, the rate declined due in large part to a notable drop in the labor force, suggesting the unemployment rate is likely to rebound again when discouraged workers return to the workforce.** Economists have non-farm employment gradually ramping up this year, averaging 160,000 per month in 2011 and 175,000 per month in 2012.



The Conference Board's Consumer Confidence Index posted an unexpected decline in December to 52.5, down nearly two points from the revised reading in November of 54.3. Overall, an increasing number of respondents feel "jobs are currently hard to get", while fewer respondents believe "jobs are currently plentiful". **Until there are tangible improvements in the labor markets, it is widely expected among economists that consumer confidence will remain at recessionary levels.**

Despite income growth slowing in November, consumer spending was relatively robust entering the holiday shopping season. Personal income in November rose +0.3% following a +0.4% boost in October. Of particular note was weakness in the wages & salaries component, which edged up only a slight +0.1% in November after jumping +0.5% in October. That said, the consumer continued to spend. Personal consumption expenditures gained +0.4% during the month, following a +0.7% gain in October. Strength came from non-durable and services expenditures, which rose +0.7% and +0.4%, respectively. Year-over-year, both personal income and expenditures experienced a +3.8% gain. **Despite a stubbornly high unemployment rate and continued weakness in consumer confidence, income and spending remain robust relative to expectations and is considered a positive for the economic recovery.**

The housing market experienced further declines in October as the Standard & Poor's/Case-Shiller Housing 10 City Index slid -1.2% while the 20 City Index lost -1.3%. Year-over-year, the results are mixed as the 10 City Index is up +0.2% while the 20 City Index is down -0.8%. That said, new home sales, rose



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+5.5% in November to a 290,000 unit annual rate. In addition, supply eased in the month, to 8.2 months from 8.8 months. Sales of existing homes remain slow but are also improving, up +5.6% in November to a 4.68 million annual rate. Supply on the market fell for a third straight month, yet at 9.5 months is still very heavy. **Overall, the housing market remains fragile and with rising interest rates likely in the near future, the outlook remains mixed.** Economists have largely scaled back their expectations for home sales and housing starts, in addition to rising rates, there are numerous other concerns including foreclosures as well as tougher appraisals and underwriting standards.

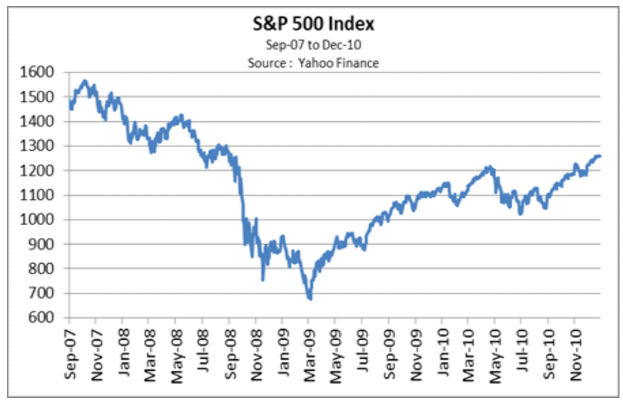
Inflation remained in check during the month as food and energy prices remained tame and prices were relatively soft elsewhere. The overall CPI in November rose a modest +0.1%, following a +0.2% increase in October. Excluding food and energy, CPI inflation rose to +0.1%, up from no change the month before. Most of the November rise in the headline was from fuel oil which jumped +4.2%. However, the jump in fuel oil was offset by a +5.7% drop in natural gas. Year-over-year, overall CPI inflation rose to +1.1%, down from +1.2 percent the prior month, while the core rate firmed to +0.7%, up from +0.6% in October. **The bottom line is that inflation at the consumer level is still quite subdued despite inflation pressure beginning to rise at the producer level and already high for commodities.** The November CPI allows the Fed to continue with balance sheet expansion and maintain accommodative policies. That said, there is the expectation that higher food and energy prices will drive the headline CPI up.

The optimism that swept through the financial markets in 2010, particularly late last year, has been tapered a bit at the start of 2011 with the realization that job growth remains sluggish and housing is still a distance from a meaningful recovery. **While managers are optimistic on the near term prospects for an economic recovery going forward, they remain concerned about some of the longer term headwinds, notably the growing deficits and future prospects for inflation.** Managers have increased exposures in recent months yet remain cautious as valuations have come a long way since the lows reached in March of 2009 and could result in a near term correction.

Long/Short Equity

(2010: +9.11% / DEC: +3.08%)

Better than expected economic data continued to boost stocks through the end of the year and led the S&P 500 Index to its best December gain since 1987. The S&P's +6.5% return in December represented half the index's return for the year and pushed the index into double digit territory for all of 2010 (+12.8% YTD). The Dow Jones Industrial Average performed similarly as the index rose +5.2% for the month and gained +11.0% for the year.



Small cap stocks continued to outperform as the Russell 2000 Index jumped +7.8% in December and closed the year with a strong +25.3% gain. **Growth slightly outperformed value** as the Russell 3000 Growth Index rose +15.9% while the Russell 3000 Value Index advanced +13.6%. **Cyclical sectors continued to outperform** as well as consumer discretionary stocks leaped +25.7%, followed by industrials (+23.9%) and energy (+19.9%). Conversely, **health care significantly underperformed** as regulatory reform served as a major headwind for a better part of the year and investors grew less risk averse. For the year, the health care sector advanced a slight +0.7%.

While most broad market averages experienced double digit gains for the year, it was not as smooth a ride as the overall numbers may imply. Investors wrestled with a number of market headwinds, most notably the strength of the economic recovery, the May "flash crash", the Deepwater Horizon oil spill, financial and health care regulatory reform as well as the sovereign debt crisis in Europe. **That said, better than expected economic data, strong corporate earnings reports and another round of quantitative easing**

more than offset said concerns and boosted investor sentiment enough to drive stocks to their second consecutive year of double digit gains.

The major macro themes that overhung the equity markets in 2010 led to an extreme "risk on – risk off" trading environment plagued by heightened volatility and correlations amongst stocks, making security selection a challenge throughout the year. Generally speaking, the hedge funds that performed the strongest in 2010 were those funds that remained the least risk averse with elevated net and gross exposure levels and a bias towards more economically sensitive sectors. **Despite the challenging market environment, the Hennessee Long/Short Equity Index managed to generate a solid +3.08% return in December and a respectable +9.11% gain for the year.**

Despite macro related concerns such as high unemployment and weak home prices entering 2010, **the consumer discretionary sector registered another stellar year of returns and finished as the top performing sector.** The sector closed 2010 with a +4.0% gain in December and generated a full year return of +25.7%. **Compelling valuations and improving economic data were the two primary drivers of returns for the sector in 2010.** As investors became less risk averse and rotated into more economically sensitive sectors, consumer discretionary stocks benefited. Going forward, hedge fund managers maintain a positive, yet cautious outlook. They believe easing in consumer loan lending standards and an improvement in consumer net worth should benefit the sector in 2011. In addition, retail sales growth continues to surprise to the upside and should lead to earnings surprises as we enter fourth quarter earnings season. That said, consumer confidence remains low, the savings rate is elevated and demographics trends remain unfavorable for select industries. **Near term managers see further upside given the technical strength, however they are closely monitoring valuations as well as economic data points for signs of a potential pull back.** Managers favor advertising, manufacturing, broadcasting, hotels, and casinos. S&P equity analysts forecast operating EPS for the consumer discretionary sector to grow +63% in 2010 and +10% in 2011. According to S&P, the consumer staples discretionary sector currently trades at 16.6X 2010 estimated EPS, marginally higher than the broader market.

Industrials were the second best performing sector in 2010 as several metrics within the industrial space, notably industrial production and the ISM Index, experienced strong advances throughout the year and boosted industrial stocks. The industrial sector advanced +7.6% for the month and closed 2010 with a full year gain of +23.9%. The sector continues to outperform during the recent equity market rally and managers believe the sector should be able to maintain its technical strength as long as the global economy continues to show signs of improvement. The capital goods industry has led the sector higher and managers remain bullish going forward as the outlook for capex spending remains favorable, particularly as the replacement cycle continues and companies begin to spend their cash. In addition, managers believe the improved credit conditions improved and fiscal stimulus for global infrastructure plans should serve as near term tailwinds for the sector. Managers are bullish on rails, farm equipment, industrial machinery and electrical components and equipment. Managers see weakness in building products and diversified commercial services. S&P equity analysts forecast operating EPS for the industrials sector to grow +25% in 2010 and +13% in 2011. According to S&P, the industrials sector currently trades at 17.3X 2010 estimated EPS.

While inflationary pressures remained subdued throughout most of the year, investors continued to position themselves for the prospects of longer term inflation, particularly due to the overly accommodative policies maintained by the Fed and the introduction of QE2 late in the year. This positioning benefited the materials sector as it advanced +10.2% in December and gained +19.9% for the year. **Despite a strong 2010, managers believe as long as commodities continue to surge, they expect the materials sector to continue to push higher as well.** However, managers are cautious as there are a number of risks. Managers are closely watching China's stock market which has been under pressure in recent months. Managers note that the relative strength of China's stock market has been an early indication for the direction of commodity prices. The overly optimistic outlook on commodities in recent months is also of concern, and could lead to a near term pullback. Gold, also an early indicator has been coming under pressure in recent weeks and could be experiencing the first leg of a correction. Rising interest rates are the primary factor capping gold prices and could place further pressure on the precious metal and other commodities going forward, at least in the near term. **Longer term, managers like the sector as hedge against future inflationary pressures, particularly precious metals and miners.** S&P projects the sector to post a +79% increase in 2010 operating EPS and 27% increase in 2011. The sector trades at a P/E of 18.9X 2010 estimated earnings, which is significantly higher than the 15.2X for the S&P 500.

Despite the effects of the Deepwater Horizon oil spill mid year, the energy sector was a solid performer in 2010. The energy sector gained +8.9% in December finished the year up +17.9%. The oil spill in May was the most noteworthy event for the sector in 2010 as it led to a temporary ban on offshore drilling and steep losses for a number of companies. That said, a number of managers used the weakness after the spill as a buying opportunity and generated solid results for the year in the sector. Managers believe the sector will continue its strength into 2011. **Managers note that while U.S. fundamentals continue to suggest oversupply, the market seems more focused on the growing Chinese demand and improved technical picture which should continue to boost the sector going forward.** Managers like coal, equipment and services, E&P, and refiners. A potential negative for the sector that managers are monitoring is Chinese inflation which is rising to uncomfortable levels and could lead to rising rates, slower economic growth and less demand. Notable hedge fund holdings include Apache, Anadarko Petroleum, Transocean, and Exxon Mobil. S&P equity analysts forecast operating EPS for the S&P 500 energy sector to rise +104% in 2010 and +15% in 2011. According to S&P, the energy sector trades at 14.7x 2010 estimated EPS, slightly lower than the S&P 500 multiple of 15.2X.

The technology sector underperformed in 2010 as businesses sat on cash and governments restrained their technology spending. The technology rose +5.21% in December and finished the year up +9.1%. **Managers remain optimistic on the tech sector entering 2011 as they expect earnings revision momentum to remain positive entering fourth quarter earnings season as expectations are uncharacteristically low.** They also anticipate tech spending to improve as companies start to spend their cash. M&A activity should also serve as a catalyst in 2011 again as companies begin to put cash to work. Managers favor software and hardware industries and expect a shift into later-cycle, more defensive industries like data processing services and systems software. Managers are overweight semi manufacturers, semi equipment, application software and systems software. Some of the more notable hedge fund holdings include Crown Castle, Juniper Networks, EMC, Apple, Microsoft, Hewlett Packard, Cisco Systems, Oracle, Qualcomm, Intel, Yahoo and Google. S&P projects the sector index to post a 47% increase in 2010 operating EPS. The sector trades at a P/E of 16.2X 2010 estimated earnings, versus 15.2X for the S&P 500.

Financials were weighed down by regulatory uncertainties throughout most of 2010 as the government worked to pass the Volcker Rule. While some aspects of the Volcker Rule were left out, a number of questions remained and led to the sector lagging the broader market for the majority of the year. The financial sector rose +10.6% in December and finished 2010 up +10.8%. **Managers are increasingly bullish on the sector entering 2011, particularly banks. However, concerns remain.** Specifically for banks, there is concern regarding weak loan growth, rising mortgage delinquencies, and, exposure to Europe. More recently there has also been concern regarding potentially illegal foreclosures as well as lawsuits that claim banks should buy back illegally sold MBS. That said, managers believe the credit cycle has troughed and credit conditions are improving which should boost financial stocks in 2011. In addition, increasing net interest margins and a steep yield curve should prove bullish for banks. Managers are particularly bearish on REITS after a strong 2010. Top hedge fund holdings include Janus, Lazard, Chubb, Invesco, General Growth Properties, Barclays, Berkshire Hathaway, JPMorgan Chase, Citigroup, Wells Fargo, US Bancorp, Capital One and Bank of America. According to S&P, the sector trades at a P/E multiple of 14.1X estimated 2010 earnings, below the 15.2X P/E of the S&P 500.

The healthcare sector struggled throughout 2010 due in large part to the health care regulatory reform pushed through by president Obama. The sector increased a slight +0.7% for the year, the worst sector performance for the year and well below the broader market. Despite compelling valuations after underperforming in 2010, managers believe 2011 could also be a tough year for the sector, at least through the first of the year as the global economy continues to improve and the financial markets rally. In addition, managers are concerned about patent expirations and ongoing uncertainty related to the health care overhaul. That said, many managers like the longer term prospects of the sector due to aging demographics and accelerating spending trends. In addition, managers anticipate further M&A activity, particularly for smaller biotech companies. While the sector is undervalued on an absolute basis and relative to other S&P 500 sectors, managers will likely underweight this sector in the first half of 2011. Current top health care holdings among hedge funds include Healthspring, Amylin Pharmaceuticals, Thermo Fisher Scientific, Johnson & Johnson, Cigna, Universal Health Services, Pfizer, Wellpoint, Merck, Express Scripts, and Teva Pharmaceutical. S&P forecasts the health care sector to post +10% EPS growth in 2010 and +13% in 2011. According to S&P, the sector's 2010 estimated P/E of 12.8X represents a discount to the broader market's P/E of 15.2X.

Despite a second consecutive year of double digit gains for the equity markets, managers believe stocks remain reasonably valued trading at 13x 2011 earnings, and look good from a technical standpoint. That said, they are concerned about the numerous headwinds, particularly the ongoing sovereign debt problems, that could derail the economic recovery and market rally and will therefore remain cautiously optimistic entering 2011. **Managers are also expecting performance to be driven more by fundamentally based security selection as opposed to the beta tailwind of the last two years which should benefit long/short equity managers relative to their traditional counterparts.**

Arbitrage/Event Driven

(2010: +12.35% / DEC: +2.66%)

Arbitrage and event driven hedge fund managers added to gains, with the Hennessee Arbitrage/Event Driven Index advancing +2.66% in December. **The arbitrage and event driven sub-strategy was the top performing sub-strategy for 2010, increasing +12.35% in 2010,** outperforming both long/short equity and global/macro.

In December and throughout the year, managers benefited from a tightening of credit spreads and rally in risk assets. Following on the heels of a strong 2009, 2010 was another profitable year for investors across asset classes. This positive backdrop helped event driven and arbitrage strategies post impressive gains for the year. While markets were volatile to start the year, investors became increasingly optimistic on the economic outlook and became more willing to assume risk. **The fourth quarter was especially strong, driving indices to levels not seen since the collapse of Lehman Brothers** (September 2008).

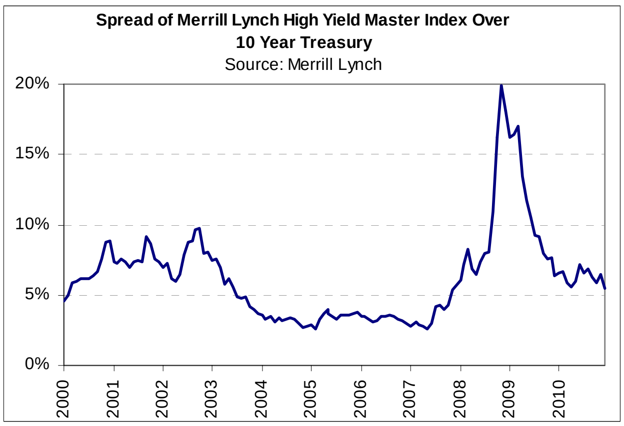
Despite strong returns for risk assets and an improving economic environment, **most hedge fund managers were positioned cautiously throughout the year due to several risks, namely a possible double dip recession and a sovereign debt crisis in Europe.** Many feel that the global economy and financial markets remain fragile, but with the Fed actively attempting to keep interest rates low, it encourages risk taking and should be a positive for risk assets. That said, many feel that it is prudent to be cautious due to the potential for disappointment and a sharp reversal of risk appetites.

Credit Markets

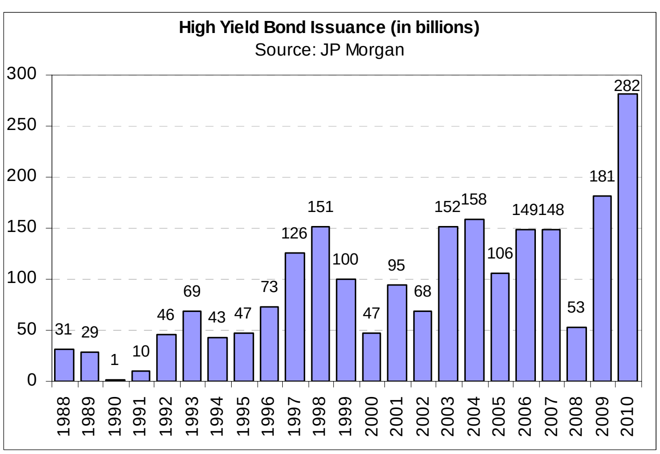
Credit markets were mixed in December. The Barclays Aggregate Bond Index declined -1.08% (+6.56% YTD), while the Barclays High Yield Credit Bond Index advanced +1.81% in December (+15.11% YTD). **For the year, the credit markets continued their 2009 rally as investors poured money into fixed income assets.**

Treasuries prices increased during the year as yields ended 2010 slightly lower, despite the late-year sell off and significant volatility throughout the year. The yield on the 2 Year Treasury declined from 1.09% to 0.61% at year end, while the 10 Year Treasury declined from 3.85% to 3.30%. During the year, the yield on the 10 Year Treasury reached its lowest levels of 2010 during the debt crisis scare in Greece, falling to below 3.00%. Treasuries were often used as a safe haven. However, as more investors become comfortable about the economic outlook, investors have shifted out of Treasuries into higher yielding risk assets. The Fed's QE2 is expected to have a significant impact on prices in the short term.

The Barclays High Yield Credit Bond Index advanced +1.81% in December (+15.11%) as spreads reached levels not seen since November 2007 despite an increase treasury interest rates. Increasing demand for yield and declining default rates attracted investors into the high yield markets throughout the year and drove prices higher. In December, the spread over Treasuries tightened by 67 basis points to 577 basis points. For the year, high yield spreads tightened from 639 to 577 basis points, which leaves high yield trading slightly below the long-term average.



New issuance continued to be very strong as demand for fixed income assets remained robust. High-yield issuance remained strong, and for the year, issuance surged to a record $353 billion. The 2010 issuance boom, with roughly two thirds dedicated to refinancing, allowed companies to lock in attractive borrowing costs and push out bond and loan maturities. The vast majority of newly originated bonds in 2010 mature in 2016 or later.



Many expect that supportive fundamentals will keep the bull run in corporate debt going. **Credit investors expect default rates to stay in a 2% to 3% range and U.S. gross domestic product to grow between 2.5% to 3% this year as companies that cleaned up their balance sheets continue to generate cash.**

At the beginning of 2009 and, to a lesser degree, 2010, credit markets appeared undervalued due to the credit and illiquidity crisis of 2008. The goal of QE2 is to keep yields low, which forces people into the equity markets and further out the yield curve (such as structured products, high yield, leveraged loans). **After an incredible rally, managers see the current high yield market as fairly valued.** Many feel that the high yield and distressed debt markets overall currently do not offer compelling value as yields have declined. However, many managers continue to identify good risk-to-reward opportunities in selecting individual securities.

U.S. securitized products strengthened in December, though lagged global equity markets. **Managers have been able to generate positive, consistent performance due to a positive carry and tightening valuations. Managers remain very active in purchasing lots of legacy assets from financial instructions looking to clean up balance sheets going into year end.** Managers believe that legacy risk holders will be net sellers for many years to come with still trillions of dollars on their balance sheet. Managers feel that structured products continue to offer compelling yields and returns. Managers state that bad banks have five years to divest $2 trillion in assets. Managers are focusing on more floating rate securities as 2011 has the potential to be a rising rate environment. Asset selection is vital going forward.

Distressed

The Hennessee Distressed Index increased +3.14% in December (+14.76% YTD). Distressed managers experienced gains as long biased portfolios benefited from increased risk appetites of investors. For the year, the distressed strategy was one of the top performing strategies, up +14.76%. Funds benefited from improving fundamentals as defaults declined and spreads tightened as well as from directional beta exposure and a rally in lower quality stocks.

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According to Moody's, the default rate ended the fourth quarter at 3.3%, down from 4% in the third quarter and 14.1% at the end of 2009. Most managers expect continued stability in the pace of defaults in 2011. Some predict that the default rates could fall to below 2%. An improving economy, stronger corporate balance sheets, and accommodative monetary policy and financing have combined to reduce challenges and default pressures. High yield issuance was a strong contributing factor to the decline in defaults in 2010. Issuance soared to a record $282 billion in 2010, according to Fitch.

In 2010, the number of defaults fell to 35 from 151 in 2009. The value of bonds affected by the defaults dropped to $11.9 billion from $118.6 billion in 2009. **According to Fitch, the decline in defaults in 2010 from a cyclical peak was the most pronounced on record.**

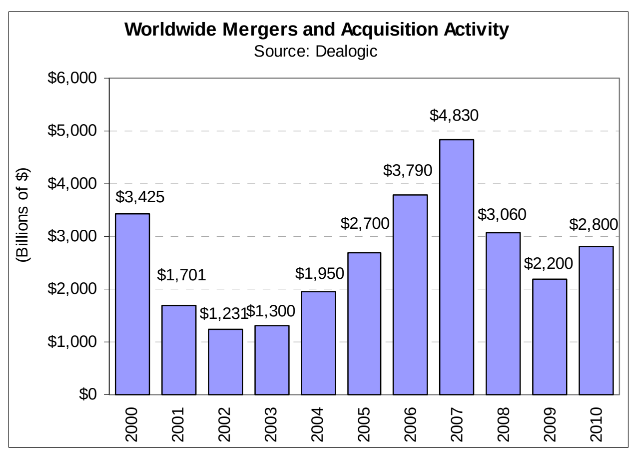
In 2008, distressed managers took advantage of companies that were going to be forced into bankruptcy, generating significant gains shorting securities and purchasing assets at significant discounts. In 2009, distressed managers were active in high yields and fixed income securities. Purchasing securities as a significant discount, where value would be created in the bankruptcy or restructuring process. In 2010, managers benefits from a rally in high yield credit and a positive carry on spreads. As high yield bonds now trade at par and yields have plummeted, most managers have transitioned into post reorganization equities. **Managers invested over the past 18 months, often purchasing bonds, going through the restructuring process with new equity. Most expect substantial upside as we move towards economic normalization.**

Merger Arbitrage

The Hennessee Merger Arbitrage Index increased +2.55% in December (+7.17% YTD). Managers benefited from a market rally and continued deal activity. During the month, Novartis AG finally agreed with the special committee on a price of $168 for its long-awaited buyout of the remainder of U.S. listed eye care group Alcon Inc. Generally speaking, spreads on existing deals tightened marginally.

For the year, merger arbitrage returns underperformed the equity markets and average hedge fund benchmarks. While deal activity increased and managers were able to take advantage of attractive risk-adjusted spreads and bidding premiums, low net exposure and low interest rates detracted from performance.

Global mergers-and-acquisitions activity for 2010 reached $2.74 trillion, up from $2.2 trillion in 2009, according to Dealogic. A record-setting one-third of those deals were in emerging markets, where merger activity was up 76% from the prior year. The four biggest announced deals of the year topped $20 billion, including the $27 billion acquisition of Carso Global Telecom by America Movil SAB, the $25 billion acquisition of GDF Suez Energy International by International Power PLC, the $22.1 billion deal for Qwest Communications International by CenturyLink Inc. and the $20.6 billion deal for Weather Investments by VimpelCom. Among the largest announced transactions in December were Novartis AG's $11.7 billion offer for Alcon, Inc., The Toronto - Dominion Bank's $6.3 billion proposal for Chrysler Financial Corporation, and Icahn Enterprises LP's $4.7 billion offer for Dynegy Inc. Credit markets continue to be supportive of deal making, and managers expect mergers to increase in 2011 as companies look past economic uncertainty to address long-term growth.



Throughout the year, managers were involved in large and well-known "arb" situations. Some of the most common deals included the acquisition of Genzyme Corporation by Sanofi-Aventis, the acquisition of Alcon by Novartis, and Air Products bid for Airgas. One of the most profitable positions was the bidding was over 3Par. Dell and Hewlett-Packard went through a bidding war, and in the end, 3Par sold for almost 240% its price before a proposed acquisition was announced. One of the main detractors from performance was the failed bid by BHP Billiton to acquire Potash Corp. Canada blocked the bid and managers were forced to liquidate the position.

The return of and outlook for private equity buyers makes owning high cash flow-producing companies attractive. Private equity buyers have a significant amount of investor capital, which needs to be invested or returned. The current market environment has improved as financing is cheap and markets have stabilized. Managers are targeting potential takeover targets in hopes of profiting from a buyout at a significant premium.

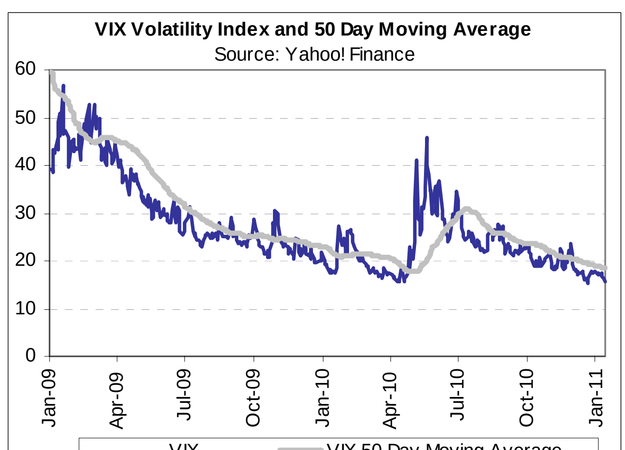
Managers are becoming increasingly more bullish on merger arbitrage. With positive, muted economic growth, corporations have stability, but also the need to pursue growth opportunities. With strong balance sheets, significant cash balances, and accommodative financing markets, companies are in good position to acquire assets. Managers are increasing exposure to merger arbitrage and participating in announced deals. In addition, they are targeting attractive candidates and deals that may be potential bidding wars. **Managers also state that while spreads are not attractive on an absolute basis, they are attractive on a risk adjusted basis as the majority of deals are strategic by strong buyers with tight legal agreements in place.** In addition, managers expect returns to increase as interest rates rise.

Convertible Arbitrage

The Hennessee Convertible Arbitrage Index advanced +1.36% (+10.44% YTD) in December. Convertibles followed the lead from equities and closed out the year with a strong performance in December. Credit tightened across the spectrum as investors continue to reach for yield, despite limited improvement in European sovereigns and a sharp sell off in US treasuries. Convertible valuations richened while the new issue calendar remained quiet.

For the year, convertible arbitrage was a top performing strategy. While 2009 gains were driven largely by a massive undervaluation of the asset due to liquidations during the credit crisis, 2010 performance was due to improving fundamentals. Convertible bonds returned 16.8% last year, beating most asset classes, according to data by Bank of America Merrill Lynch. **Tighter corporate credit spreads, bond cash flows and an improvement in secondary market valuations all contributed positively to performance, while declining volatility providing a headwind.** In addition, managers profited from successful position selection and trading as well as special situations. Managers were able to generate profits by identifying convertible issuances that would be restructured or retired early as companies took advantage of low interest rates to refinance balance sheets.

Volatility, as reflected in the Chicago Board Options Exchange Volatility Index, closed 2010 at 17.7 after reaching levels over 40 in the month of May. The current relatively low level of the VIX reflects a high degree of investor complacency. In fact, bullish sentiment has climbed to a very high level, in line with that of the fall of 2007. On a side note, from a short term, technical perspective, this is a negative indicator for equity markets as it implies limited scope for additional investment demand and, hence, price support.



The convertible market also advanced on PIMCO's announcement that its Total Return Fund, the world's largest mutual fund, would allow investments in equity linked securities starting in the second quarter of 2011. The Pimco Total Return Fund, the world's largest mutual fund, is allowing investments in convertibles for the first time since 2003. Pimco indicated that the fund may invest as much as 10% of its assets in convertible securities as soon as the second quarter. Interest from the largest player in the bond market suggests positive demand and price support for the asset class. The $19.4 billion Loomis Sayles Bond Fund is also investing in convertibles. **This represents a very large potential source of convertible demand.** Over the past couple years, the convertible sector has significantly benefited from outright investors purchased convertible securities for yield, which has led to broad based strengthening. **This buying and selling has also provided trading opportunities as non-traditional buyers often create short term mispricing.**

The new issue calendar was remarkably slow in 2010 and activity eased in the second half of December. **Issuance tumbled to $33.8 billion in 2010, the slowest period in 14 years.** A large $1.5 billion issue from Lukoil was the most significant deal of the month. In Europe, high yield and convertible issuance continue to replace bank debt as a source of financing, which should be a significant driver of convertible issuance in 2011. The strength in stock markets and low absolute yields are also supportive of stronger new issuance globally in 2011. Additionally, increased new issuance in 2011 should expand the opportunity set. Recent issues have continued to be priced at attractive levels, below fair value, which enhances the potential. Current estimates are for new issuance of $50 billion for the coming year.

Most convertible managers remain constructive on the opportunity set. **Although the convertible bond market has improved, valuations remain below fair value and are more attractive on a relative basis than other asset classes.** Managers report that competition is minimal as proprietary trading desks remain largely absent from the market. In the current environment, where the outlook is uncertain and risk levels unusually high, **convertibles are attractive because they provide equity upside and enhanced yield but with the downside protection of a bond.**

Global/Macro
(2010: +9.32% / DEC: +2.70%)

The Hennessee Global/Macro Index advanced +2.70% in December (+9.32% YTD). Positive global markets helped drive gains as the Hennessee International Index climbed +2.64% during the month (+12.08% YTD) and the Hennessee Emerging Markets Index gained +2.83% (+13.65% YTD). For the year, despite the fact that global stock markets faced multiple sovereign debt scares in Europe and worries about a double-dip recession in the U.S., global markets posted gains. In Europe, positive performance was driven by Germany and England, while the PIIGS (Portugual, Ireland, Italy, Greece and Spain) detracted from performance. In Asia, several markets posted strong gains, but the largest economies, China and Japan, experienced declines. Emerging markets were strong, and managers remain optimistic on the longer term outlook.

International Equities

Despite lingering concerns about sovereign debt issues in the "PIIGS", international equities closed 2010 with strong gains during the month of December which pushed the majority of indices in positive territory for the full year period. The MSCI EAFE Index rose +8.0% in December and +4.9% in 2010, while the MSCI Emerging Markets Index increased +7.0% in December and jumped an impressive +16.4% for the year.

Hedge fund managers focused on international equities lagged the broader market averages during the month due to their conservative positioning and hedges. That said, the Hennessee International Index still managed to generate a respectable +2.6% gain for the month and closed 2010 with a solid +12.1% gain. The Hennessee Emerging Markets Index performed well in 2010, gaining +2.8% in December and +13.7% for the year.

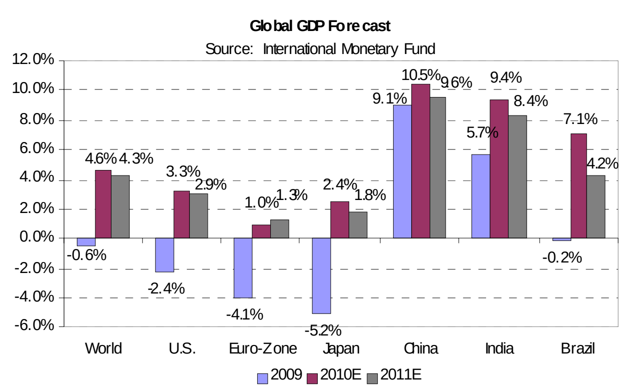
Developed Markets

Unlike most of the year, the bulk of the gains in December were concentrated in the developed markets, as all 26 developed markets advanced and the S&P International Index gained +7.6%. While the developed markets have lagged their emerging counterparts in 2010, they still managed a respectable gain of +11.8%. Combined with their 29.6% advance in 2009, the developed international equities are up an impressive +45% over the past two years. Ten markets posted double-digit gains for the month with Norway (+18.3%), Luxembourg (+16.1%), Austria (15.7%) and Ireland (+13.4%) leading the way.

While December was a good month from both an economic and financial market perspective, managers remain cautious entering 2011 as additional advances from this level will be less easily accomplished and will need to be supported by real tangible economic progress. The central concern for managers focused on the developed equity markets remains the ongoing sovereign debt issues in the "PIIGS" and the potential impact a default of one of them could have on the global economy and the financial markets.

Emerging Markets

Despite lagging the developed markets in December the, emerging markets rallied broadly during the month as 17 of the 19 emerging markets experienced gains. South Africa, Taiwan, Russia, and Czech Republic posted double-digit returns (+13.9%, +11.9%, +11.2% and +10.0%, respectively), with only Turkey and China posting losses (-1.2% and -0.8%, respectively). The emerging markets rallied +17.2% in 2010 after experiencing an +80.3% gain in 2009. The S&P Emerging Markets Index is now just -4.4% off its year-end 2007 level. In addition, ten of the 19 emerging markets country indices have already recovered their recessionary losses.



While managers favor the emerging market economies over their developed market counterparts, largely due to their stronger growth prospects, there is now a growing concern that above average growth could potentially lead to a spiraling inflation problem in a number of emerging market countries. Of particular concern are China, India and Brazil; all of which are already experiencing inflationary pressures that are causing concern among central banks'. **While initially most investors were attributing recent inflationary pressures to more transitory food/energy price spikes, there is now concern that it is a more structural problem and should be considered a legitimate risk to emerging market equities.** Given this growing risk managers will be much more cautious with regards to their exposure levels, particularly after the two consecutive years of strong double digit gains.

Europe

The MSCI Europe Index leaped +8.3% during the month of December and finished 2010 with a +1.0% gain. **Throughout 2010, investors increasingly began to question the regions ability to service the overall debt burdens of select countries while at the same time implement reforms to sustain an economic recovery.** The "PIIGS" were particularly weak during the year and led to the region lagging the majority of the global indices on a relative basis. Portugal fell -14.6% in 2010, while Ireland declined -19.7%, Italy fell-17.6%. Spain and Greece were the most affected by the sovereign debt concerns, falling -25.4% and -46.4%, respectively. Managers focused on the Euro region were able to generate gains in both December and for the full year period, however still lagged on a relative basis. **The Hennessee Europe Index increased +3.2% for the month and finished up +4.2% for the year.**

While managers have been encouraged by the surprising strength in European data in recent weeks, questions and concerns remain. **Expectations are for Europe to still decelerate to a slightly below trend pace in 2011as austerity measures and general economic weakness around the world are expected to lead to disappointing results going forward.** While sentiment has improved in the area, mangers prefer to remain cautious with a focus still on preserving capital and operating at low exposure levels.

Asia

Asian equities advanced in December, with the MSCI AC Asia Pacific Index gaining +7.0% and finished 2010 with +14.3% return. The Hennessee Asia-Pacific Index gained +2.1% in December and finished 2010 up +6.2%. While the focal point remains China and its need to balance economic growth with rising inflation, there are a number of other opportunities that managers find compelling in the region, particularly over the longer term. Taiwan continues to expand at a larger-than-expected rate, Malaysia registered impressive growth on a year-over-year basis and Hong Kong continues to exceed forecasts. Managers also believe the longer term prospects for India are very strong but have some concern near-term due to valuations. **Overall, managers like the prospects for the region, but rising consumer and home prices are a growing concern across the region, which could prompt interest rate increases from the central bank and a pull back in equities in the near term.**

China remains the focal point for investors as it is perceived not only as the engine for overall growth in the region but also for the global economy. After the currency was de-pegged mid-year from the dollar, the Chinese economy appeared to be experiencing solid growth, low inflation, increasing consumption and strong trade. Managers expected the increasing currency to help shift demand to its own consumer, as exports were likely to decline, which could help to create a more internally sustainable economy. The flexible currency policy may also help to slow down inflation, a major concern among investors for China. Managers continue to believe that Chinese equities are undervalued and the economy will continue to be a global leader. **As fiscal policy tightening has been successful in combating inflation, many are increasing exposures to the area but remain cautious as there is the threat of inflation reaching unsustainable levels.** If inflation were to become problematic, Government officials would have to take action which would likely stymie economic growth and lead to a stock market correction. That said, valuations remain attractive after a disappointing 2010. The MSCI China Index rose a slight +2.3% in 2010.

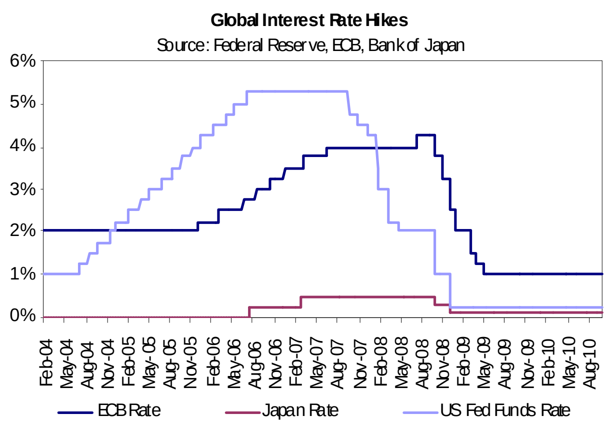
Japan finished 2010 with a strong +7.5% gain in December and rose an impressive +13.4% for the full year period. Japanese equities had a rough start to the year as doubts grew about the strength of Japan's economic recovery. Pessimism was building at the beginning of the year as growth in Japanese exports were slowing drastically and GDP reports were way below expectations; particularly the second quarter result which dropped off sharply from the first quarter. In addition, the yen hit a 15-year high against the U.S. dollar, which many felt would pose significant risk to exports and the economy. Managers anticipated the impact of a stronger yen to first show up on corporate earnings reports as it cuts into Japanese exporters' profit margins and their ability to sell abroad.

While managers have some concern about the growth prospects for the region, they began to deploy capital into the region during the second half of the year citing the compelling valuations, tremendous operating leverage and its "late" cycle nature. **Managers still believe Japanese equities remain attractive from a valuation standpoint and will continue to maintain exposure to the region.**

Latin America

The Hennessee Latin American Index increased +1.0% in December and finished 2010 with a strong +13.4% return. Concerns over inflation in Brazil led to disappointing results for the year as the MSCI Brazil Index rose a slight +3.8%. Conversely, despite concerns about the potential effects of a weakening US economy, Mexico jumped an impressive +26.0% in 2010.

Going forward, managers remain cautious with Brazil. **Increasing inflation and a change in political landscape presents a number of uncertainties in the near term for the country.** That said, if valuations become more reasonable, they believe it could become an attractive long term investment. Two countries managers are beginning to allocate to are Chile and Colombia. Chile appears to have significant growth potential, particularly if we continue to see rising commodity prices given the amount of natural resources in the region. Colombia, which was recently included in the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa) collection of emerging markets, are expected to follow the BRICs into rapid growth. The new president, Jose Santos, is expected to maintain policies that will continue to reduce internal fighting and provide further stability. Colombia is also expected to benefit if the new U.S. Congress ratifies the U.S.-Colombia Free Trade Agreement, signed in 2007 but held hostage by the protectionist Democrat majority. Also, like Chile, Colombia has a huge bounty of natural resources, including major offshore oil deposits and should benefit from a bull commodity market.



Conclusion

Managers expect the global soft patch to continue into 2011 which will likely keep risk assets volatile in the near term. **That said, the expectation of renewed growth coupled with reasonable valuations and overly accommodative monetary policies are expected to support the markets throughout 2011.** Managers also expect the market to weed out the macro noise and begin to focus on fundamental strength of companies instead. Managers remain cautiously optimistic with elevated exposure levels relative to the beginning of 2010 with an overweight to the developing markets.

Macro

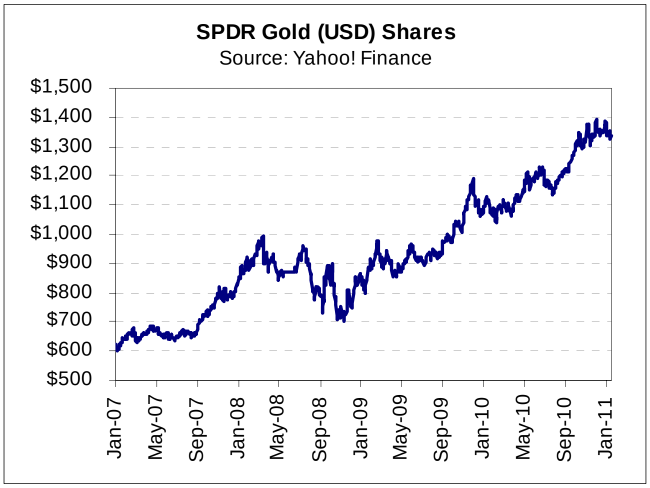
The Hennessee Macro Index advanced +3.27% for the month (+7.96% YTD). **Macro funds were a top performing strategy in December as they experienced one of their best months of the year.** Managers profited from positions in long equities, long precious metals and other commodities, long oil, short the U.S. dollar, and short Treasuries.

For the year, macro manages posted positive returns, but underperformed traditional benchmarks and average hedge fund returns. **Macro managers struggled to gain traction despite a momentum based market.** Managers experienced difficulty as markets rapidly fluctuated between risk on and risk off trades. Managers were able to generate profits long commodities and precious metals.

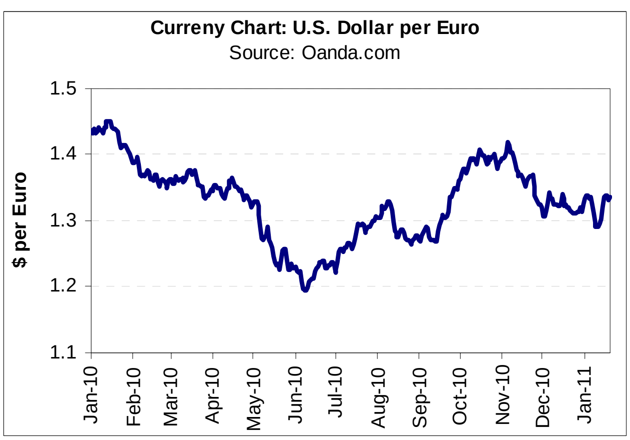
Managers were able to generate gains long equities as the S&P 500 climbed 15.1% and the MSCI World rose 11.8% for the year. Positive results were generated in virtually all areas other than equity shorts. The outlook for equities improved in recent months after the Fed announced the second round of "quantitative easing". Currently, managers maintain a high net long exposure to equities as they maintain a positive view in the short term. Managers generated gains long credit markets as most markets were positive for the year. Credit markets benefited from strong inflows, a low default rate and substantial fiscal stimulus.

For the year, commodities have been a major source of profits as the Dow Jones-UBS Commodity Index rose +16.8% in 2010. Gold, a common hedge fund position, ended the year up +29.8%. Silver and palladium were also significant gainers, up +83.8% and +97.3%, respectively. Oil prices stayed in a narrow band between $68 and $92 a barrel, but ended the year up +15%. Cotton was one of the top performers, rising over +106%. Coffee and corn gained over +19.5% while sugar rose +16.6%.

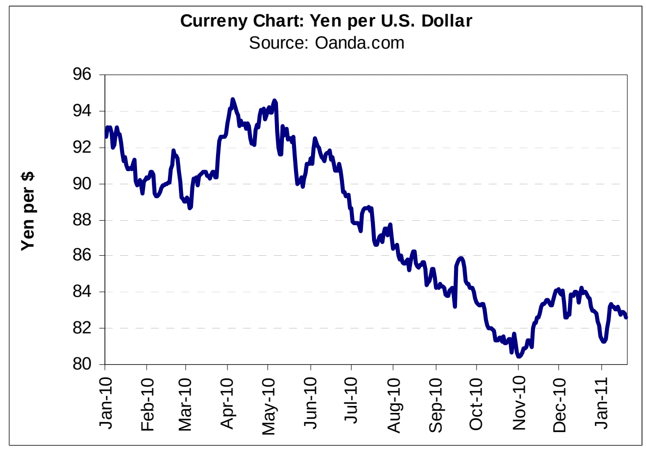
Gold prices advanced +1.59% in December**. Gold is one of the best performing asset classes in 2010, up more than +29.8% this year and reaching a record high in November before correcting.** Managers remain optimistic on gold and other precious metals as demand from investors and consumers remains strong. In addition, managers believe that extraordinary debt levels across the globe will require central banks to undertake quantitative easing to avoid deflation, resulting in debasement of major currencies. **A weaker U.S. dollar and other global currencies will continue to provide a powerful tail wind for higher prices.** Many hold gold because it continues to represent an important form of insurance against financial turmoil and accelerating currency debasement, as well as a significant profit potential. Some managers report reducing gold exposure as gold reached new highs, awaiting a pullback before re-establishing a larger position.



Managers had a variety of both winning and losing trades in currencies. Many managers were short the U.S. dollar at several points in the year. However**, for the year, the U.S. dollar managed to post a small gain, as the U.S. dollar index, which measures the dollar against a basket of currencies, gained +1.5% in 2010.**



The euro declined –6.6% versus the dollar for the year. In May, the EU and the International Monetary Fund had to come to the aid of Greece. The European sovereign debt crisis scare caused a significant sell off of the euro. The euro, which had hit an all-time high against the dollar in April 2008 at 1.5981, and started 2010 at $1.4326, fell to $1.1917 on June 7 before recovering. Despite being tested again in November after Ireland was sunk by its crippled banking system, the euro recovered and is well off its lows for the year as interest rate differentials moved in favor of Europe. Most managers expect volatility in the euro to remain in 2011, especially as the European sovereign debt crisis is likely to re-emerge as Portugal and Spain have to roll over debt.



Managers were surprised by the Yen's strength in 2010, especially as the Japanese economy remains weak. **The dollar lost -12.8% against the Japanese currency, finishing 2010 at 81.25 yen, down from 93.08 at the end of 2009.** Japan actually attempted to intervene in the currency markets to weaken the yen in September. Most managers expect that the yen will have to decline in value, especially as Japan has a substantial debt burden of roughly 200% the country's gross domestic product. Managers continue to remain optimistic on emerging market currencies relative to the U.S. dollar, especially in Asia.

Conclusion

The consensus has quickly become that global economy is improving and a double dip recession is unlikely. Most expect the European sovereign debt crisis to cause volatility, but most believe that we will avoid catastrophe. Managers are concerned with emerging market inflation, especially in China, as it has potential to cause a hard landing. In the short term, the direction of risk assets should be positive. **Longer term, managers are cautious about the fiscal imbalances globally.**

HENNESSEE HEDGE HOG CORNER

The following are extracts from research related to hedge fund managers we monitor and do not necessarily represent the views of the Hennessee Group LLC:

The global economy and markets remain unbalanced, dependent on government support and highly vulnerable to policy changes. **The government-stimulated market momentum will recede in 2011,** in favor of either gradual normalization or renewed crisis.

Our portfolio structure and positioning going into 2011 is quite consistent with where it was one year ago **- slightly longer and more skewed toward equity strategies versus credit, but also more hedged,** which is to be expected given the higher beta and volatility of equities.

We see M&A as an evolving high yield catalyst for 2011, given that sponsors have cash to use and limited organic growth opportunities, while high yield companies are in the mode of bolstering liquidity and shedding assets to fund creditor friendly actions.

Commodities should benefit from robust and growing fundamental demand from industrializing emerging markets, and also attract financial investors looking for monetary debasement hedge.

With the S&P up over 20% from its August lows, hedge fund exposures near record levels, S&P 500 short interest at record lows, and money flooding out of bonds into equities, **a lot of good news has been discounted.**

We expect an increased focus on the fiscal health of certain states and municipalities in 2011, and we may see meaningful defaults in this space.

We expect to have **continuing opportunities in Europe** as well as more targeted opportunities in the emerging market space and in real estate related bank debt and securities.

We are finding **significant opportunities in structured products** as financial institutions continue to dispose of legacy assets.

While the improvement in the credit markets will help some companies, **there is still a substantial amount of debt maturing over the next several years that will create issues for many other companies.**

While we believe that the markets are becoming inured to sovereign problems in the European periphery, **we are still concerned with Spain, Italy and Japan.**

Looking forward**, European ABS should become a source of supply this year and we have initiated coverage on several of the deals we believe will have the most upside.** Additionally, as government intervention continues to drive price action in rate sensitive products, we have begun to look at structured strategies that will profit as rates invariably rise

We feel that the post reorganization equities that we have purchased over the last 18 months will help drive performance as the economy normalizes.

While the near term risks have been delayed, **sovereign default risk has not disappeared.** We feel that investors will realize this in 2011, resulting in significant volatility.

We believe it is only a matter of time before Japan is forced to implement massive quantitative easing in order to force the yen down and to fund deficits.

We are concerned about the possible peak in operating margin as cost inputs continue to rise.

We feel that the extraordinary debt levels prevailing worldwide would require central banks to undertake quantitative easing to prevent a deflationary spiral, and that the resulting inflation of the major currencies bases would **perpetuate the bull market for gold.**

We strongly believe that **large-cap value stocks, particularly in technology and healthcare,** offer the most attractive investment opportunities.

We expect **interest rates to rise in 2011** and are shifting our portfolio more into floating rate securities.

HENNESSEE HEDGE FUND RANKINGS

MONTHLY RANK 2010 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	**16**	18	20	6	10	20	9	5	14	8	9	9	16
CONVERTIBLE ARBITRAGE INDEX	**4**	7	18	12	9	19	6	6	7	14	6	19	18
DISTRESSED INDEX	**5**	1	13	5	1	14	16	15	18	17	11	7	7
EMERGING MARKETS INDEX	**3**	13	19	1	12	22	8	3	10	3	7	22	11
EUROPE INDEX	**21**	9	21	16	22	23	13	9	15	10	8	20	6
EVENT DRIVEN INDEX	**1**	5	3	4	4	12	23	1	20	4	5	15	3
FINANCIAL EQUITIES INDEX	**15**	10	11	3	2	17	17	4	23	12	2	4	1
FIXED INCOME INDEX	**7**	3	15	19	13	5	3	20	4	21	15	6	15
GROWTH INDEX	**17**	23	4	7	7	18	18	13	17	1	4	2	4
HEALTHCARE AND BIOTECH INDEX	**22**	15	22	2	14	16	21	18	22	9	21	17	2
HIGH YIELD INDEX	**6**	4	17	11	3	11	4	8	9	20	17	23	17
INTERNATIONAL INDEX	**8**	17	12	8	11	21	15	14	3	6	3	13	12
LATIN AMERICA INDEX	**2**	21	9	15	16	10	2	2	12	11	10	14	20
MACRO INDEX	**19**	12	6	21	19	3	7	22	6	16	13	21	5
MARKET NEUTRAL INDEX	**18**	11	16	22	18	6	10	12	19	5	19	8	21
MERGER ARBITRAGE INDEX	**14**	8	14	20	20	2	5	21	5	22	20	16	13
MULTIPLE ARBITRAGE INDEX	**10**	6	10	17	15	7	11	19	8	15	16	3	14
OPPORTUNISTIC INDEX	**20**	16	2	10	6	9	19	17	21	18	18	5	8
PIPES/PRIVATE FINANCING INDEX	**11**	19	8	18	17	8	20	11	11	19	1	1	19
SHORT BIASED INDEX	**23**	2	23	23	23	1	1	23	1	23	23	18	23
TECHNOLOGY INDEX	**9**	20	7	14	8	4	14	10	13	2	12	10	10
TELECOM AND MEDIA INDEX	**13**	22	1	13	21	13	12	16	2	13	22	12	22
VALUE INDEX	**12**	14	5	9	5	15	22	7	16	7	14	11	9

The Hennessee Hedge Fund Indices® are calculated from performance data reported to the Hennessee Hedge Fund Advisory Group by a diversified group of hedge funds. The Hennessee Hedge Fund Index is an equally- weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index are believed to be statistically representative of the larger Hennessee Universe of over 3,500 hedge funds and are net of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund.

HENNESSEE GROUP LLC
HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND INDICES®

HENNESSEE HEDGE FUND REVIEW®
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2010 (Net)	YTD	YTD RANK	% of mgrs. >S&P, ytd	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	6.16%	**17**		-1.48%	-0.60%	3.44%	1.70%	-4.65%	-0.65%	1.40%	-0.80%	3.52%	2.52%	-0.16%	2.08%
CONVERTIBLE ARBITRAGE INDEX	10.44%	**13**		0.36%	-0.01%	2.56%	1.64%	-3.59%	0.11%	2.21%	1.36%	2.43%	2.28%	-0.57%	1.36%
DISTRESSED INDEX	14.76%	**2**		2.48%	0.86%	3.42%	3.04%	-3.80%	-1.62%	1.78%	-1.41%	2.53%	2.74%	0.97%	3.14%
EMERGING MARKETS INDEX	13.65%	**3**		-0.79%	-0.30%	4.62%	1.34%	-4.80%	-0.41%	3.13%	-0.07%	5.19%	2.63%	-0.09%	2.83%
EUROPE INDEX	4.24%	**22**		0.35%	-0.89%	2.11%	0.19%	-4.96%	-1.33%	2.18%	-0.88%	3.19%	2.30%	-1.00%	3.22%
EVENT DRIVEN INDEX	16.20%	**1**		1.12%	1.98%	3.50%	2.33%	-3.34%	-2.86%	3.11%	-1.36%	4.15%	2.79%	-0.31%	4.39%
FINANCIAL EQUITIES INDEX	13.30%	**5**		0.16%	0.97%	3.31%	2.13%	-3.85%	-1.91%	2.64%	-2.86%	2.83%	2.82%	0.82%	5.94%
FIXED INCOME INDEX	12.59%	**7**		1.69%	0.48%	1.53%	1.20%	-1.62%	0.78%	1.20%	1.12%	1.48%	0.89%	1.02%	2.21%
GROWTH INDEX	10.94%	**12**		-3.07%	2.14%	3.28%	1.94%	-4.60%	-2.38%	2.02%	-2.23%	4.89%	2.08%	2.65%	4.26%
HEALTHCARE AND BIOTECH IN-	5.07%	**20**		-0.50%	-1.35%	4.33%	1.16%	-3.98%	-2.66%	0.82%	-1.00%	4.23%	0.41%	-0.64%	4.57%
HIGH YIELD INDEX	12.02%	**9**		1.36%	0.37%	2.76%	2.41%	-3.31%	0.19%	2.75%	0.29%	2.45%	1.99%	-1.12%	1.45%
INTERNATIONAL INDEX	12.08%	**8**		-1.01%	0.39%	3.54%	1.53%	-5.04%	-1.67%	2.39%	-0.25%	5.99%	3.45%	-0.03%	2.64%
LATIN AMERICA INDEX	13.35%	**4**		-2.70%	1.30%	2.45%	0.58%	-2.99%	1.63%	4.07%	0.86%	4.15%	2.27%	0.21%	1.04%
MACRO INDEX	7.96%	**15**		-0.75%	1.61%	1.43%	0.08%	-1.49%	-0.48%	-1.18%	1.49%	2.78%	1.24%	-0.18%	3.27%
MARKET NEUTRAL INDEX	5.06%	**21**		-0.40%	0.61%	0.87%	0.05%	-1.58%	-0.82%	1.80%	-0.73%	3.04%	1.19%	0.00%	1.00%
MERGER ARBITRAGE INDEX	7.17%	**16**		0.19%	0.74%	1.51%	0.54%	-1.78%	-0.38%	1.45%	0.47%	1.30%	0.90%	-0.47%	2.55%
MULTIPLE ARBITRAGE INDEX	11.41%	**10**		0.90%	0.83%	1.79%	0.90%	-1.86%	-0.84%	1.27%	0.63%	2.67%	1.72%	0.55%	2.40%
OPPORTUNISTIC INDEX	5.61%	**19**		-1.07%	2.06%	2.81%	1.84%	-2.92%	-2.21%	1.28%	-1.78%	2.49%	0.52%	-0.30%	3.00%
PIPES/PRIVATE FINANCING INDEX	6.05%	**18**		-2.00%	1.21%	1.29%	-0.32%	-1.82%	-2.34%	3.43%	-2.27%	3.68%	2.62%	1.39%	1.28%
SHORT BIASED INDEX	-13.18%	**23**		2.54%	-2.34%	-4.74%	-1.98%	4.25%	3.98%	-4.13%	4.18%	-6.09%	-2.51%	-1.80%	-4.60%
TECHNOLOGY INDEX	12.68%	**6**		-2.17%	1.46%	2.49%	1.50%	-1.59%	-1.60%	2.01%	-0.13%	4.99%	1.85%	0.57%	2.85%
TELECOM AND MEDIA INDEX	8.33%	**14**		-2.89%	3.91%	1.67%	0.39%	-2.97%	-0.28%	1.22%	1.33%	3.44%	2.19%	-0.26%	0.53%
VALUE INDEX	11.37%	**11**		-0.90%	1.85%	3.22%	2.10%	-4.04%	-2.75%	2.76%	-2.09%	4.88%	2.40%	0.86%	2.95%
HENNESSEE HEDGE FUND INDEX	**10.05%**		**51%**	**-0.45%**	**0.87%**	**2.67%**	**1.42%**	**-3.33%**	**-1.36%**	**1.90%**	**-0.71%**	**3.56%**	**1.96%**	**0.40%**	**3.04%**
LONG/SHORT EQUITY	**9.11%**			**-1.17%**	**1.32%**	**2.63%**	**1.54%**	**-3.21%**	**-1.99%**	**1.88%**	**-1.40%**	**3.86%**	**1.70%**	**0.79%**	**3.08%**
ARBITRAGE/EVENT DRIVEN	**12.35%**			**1.10%**	**0.86%**	**2.53%**	**1.73%**	**-2.81%**	**-1.04%**	**2.08%**	**-0.15%**	**2.68%**	**2.09%**	**0.13%**	**2.66%**
GLOBAL/MACRO	**9.32%**			**-0.94%**	**0.15%**	**2.99%**	**0.92%**	**-4.05%**	**-0.61%**	**1.71%**	**0.05%**	**4.13%**	**2.35%**	**-0.20%**	**2.70%**
DJIA	11.02%			-3.46%	2.56%	5.15%	1.40%	-7.92%	-3.58%	7.08%	-4.31%	7.72%	3.06%	-1.01%	5.19%
BARCLAYS AGG. BOND INDEX	6.56%			1.53%	0.37%	-0.12%	1.04%	0.84%	1.57%	1.07%	1.29%	0.11%	0.36%	-0.57%	-1.08%
MSCI EAFE (USD) PRICE INDEX	-2.89%			-4.44%	-0.88%	5.81%	-2.10%	-12.06%	-1.16%	9.41%	-3.34%	9.49%	3.55%	-5.03%	8.02%
NASDAQ	16.91%			-5.37%	4.23%	7.14%	2.64%	-8.29%	-6.55%	6.90%	-6.24%	12.04%	4.03%	-0.37%	6.19%
RUSSELL 2000	26.31%			-3.73%	4.41%	7.97%	5.59%	-7.67%	-7.88%	6.79%	-7.50%	12.30%	5.86%	3.36%	7.79%
S&P 500	12.79%			-3.70%	2.85%	5.88%	1.48%	-8.20%	-5.39%	6.88%	-4.74%	8.76%	3.69%	-0.23%	6.53%

The Hennessee Hedge Fund Indices® are calculated from performance data reported to the Hennessee Hedge Fund Advisory Group by a diversified group of hedge funds. The Hennessee Hedge Fund Index is an equally- weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index are believed to be statistically representative of the larger Hennessee Universe of over 3,500 hedge funds and are net of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund.